

Testimony Before the Illinois House Executive Committee
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“TAX GAMBLING, NOT PEOPLE:
THE BUDGET AND PENSIONS SOLUTION FOR ILLINOIS”

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The Illinois budget would probably be balanced today, except for the \$35 billion to \$55 billion given away to Illinois gambling interests over the last two decades. Faced in 1990 with a choice between a continued consumer economy or a new casino/slot machines economy, Gov. James Thompson’s lame-duck administration chose gambling. During the same time period, other states rejected casinos/slot machines and today have solvent budgets—and even surpluses.

The original ten Illinois casino licenses, which were worth a fair market value of over \$5 billion in 1990 (\$10 billion in 2013 dollars) were granted for \$25,000 per license to political insiders—including one casino owner imprisoned in the Gov. Rod Blagojevich scandals. Since 1990, Illinois has tagged the proposed new casino licenses at \$100,000 each—when each license is really worth over \$500 million on Wall Street.

The 2011 state income tax increase of 67 percent has occurred after years of tax decreases on Illinois gambling. By comparison, the 2012-2013 reduction of retiree healthcare benefits saved Illinois \$788 million—at most.

In Canadian casinos, the taxpayers keep virtually 100 percent of the casinos’ profits, while paying only “management fees” to the gambling companies. By comparison, in Illinois the casinos ship over \$1.2 billion per year to their Las Vegas and headquarters offices.

To exemplify the lack of patriotism of the gambling interests, legislators should remember that after 9/11 when the U.S. Congress passed the 2002 Economic Stimulus Act to revive the U.S. economy, an Illinois Congressman slipped a provision into the Act which granted the gambling interests a \$40-billion tax write-off for “slot machines” (and the casinos were brazenly asking for a \$133-billion write-off).

Concerned with these developing scenarios and encouraged by overwhelming bipartisan Congressional support, Illinois Senator Paul Simon and House Judiciary Chair Henry Hyde sponsored and enacted the **U.S. National Gambling Impact Study Commission**. Among other recommendations, the 1999 **U.S. Gambling Commission** recommended a moratorium on the expansion of any type of gambling anywhere in the United States.

Senator Simon's **U.S. Gambling Commission** also recommended the re-criminalization of slot machines/electronic gambling machines (EGMs) convenient to the public (Rec. 3.6), continued prohibitions on creating slots facilities at racetracks (Rec. 3.12), and continued total prohibitions on all types of Internet gambling (Rec. 5.1, et seq.). These conclusions have been strongly re-confirmed in the multi-volume 2009-2013 **United States International Gaming® Report**, produced in large part at the University of Illinois and in concert with colleagues at other academic institutions. Recent Illinois gambling expansion bills have uniformly ignored these recommendations—adding to the national embarrassment of Illinois.

After a decade of struggling with gambling lobbyists, South Carolina Gov. David Beasley and his colleagues just “wiped the slate clean” and re-criminalized slot machines/EGMs in 1999-2000. The S.C. economy quickly experienced new consumer spending, new jobs, and increased tax revenues, while simultaneously lowering the per capita tax burden on taxpayers and slashing the large gambling-caused crime/social costs imposed on state agencies.

By comparison, the Illinois legislature has continued to embrace the Illinois casinos and their slot machines/EGMs, repeatedly lowering the de facto taxes on gambling—while raising various taxes on Illinois residents and businesses, such as the 67 percent increase in the state income tax in 2011.

People who like to play slot machines/EGMs should demand legislative hearings to see if these machines are “fair.” There have never been legislative hearings in Illinois or elsewhere on consumer product safety where the EGM manufacturers have had to describe under oath how the EGMs work. In the 10-minute investigative video “Slot Machines: The Big Gamble” by **60 Minutes** in 2011, the pending EGM scandals were highlighted (and this report can still be viewed online at **60 Minutes**). People need to know if they are being cheated.

In 2005, House Bill 1920 supported by Speaker Mike Madigan to eliminate the ten Illinois casinos and thereby create new jobs, passed the Illinois House of Representatives by a vote of 67 to 42 (upon recommendation of the House Executive Committee with only one dissenting vote), but the bill was then procedurally killed by Gov. Blagojevich.

However, in Omaha, Nebraska, government leaders including business icon Warren Buffett bulldozed the failing racetrack and the proposed “salvation” casino (despite two casinos being located nearby in Iowa). Instead of a casino, Omaha built a high-tech office park and University of Nebraska (UNO) facilities on the old gambling venue. These developments attracted townhouses and an entertainment complex including restaurants and shops, thereby generating a billion-dollar neighborhood expansion, which ironically now includes the new building for the UNO College of Business.

By comparison, the State of Virginia rejected casinos during the same timeframe that Illinois authorized its first 10 casinos, and Virginia currently has a budget surplus of approximately \$1 billion, while the Illinois budget is the nation's worst. For the strategic

perspective on Wall Street gambling which was decriminalized in 2000, and its delimitation as the catalytic cause of the 2008-2013 economic crisis, the news video "Financial WMDs" (a.k.a., "The Bet That Blew Up Wall Street") may still be viewed at the website for **60 Minutes**.

If the Illinois legislature really needed money, it could immediately collect at least \$5 billion to \$10 billion in casino license fees which the casinos should have originally paid—instead of the mere \$25,000 per license. By comparison, the 2011 state income tax increase of 67 percent generated less than \$8 billion for the State Treasury.

In another example, the 2003 legislative presentations in Springfield by the Maryland Tax Education Foundation calculated the fair market value of the Illinois casino licenses as being worth \$500 million each.

According to the Illinois legislative briefings, only troubled casinos are worth less than \$500 million. In 2001 it was reported that Nevada's Jack Binion, the tycoon of Horseshoe Gaming, was ruled unfit for his \$25,000 Illinois casino license. Accordingly, Binion sold his Illinois casino interests for \$465 million. In 2008, a \$435 million offer was made for the troubled tenth Illinois casino license as the casino went to Des Plaines. Dogged by improprieties, Station Casinos sold its Missouri casino interest to Ameristar Casinos for \$488 million. As Louisiana Gov. Ed Edwards went to jail for his part in a casino licensing scandal, Players International Inc. sold its Louisiana casino interests to Harrah's Entertainment for \$425 million.

If Illinois needs tax revenues, the current casino license fees and Illinois gambling facilities are a pot of gold worth \$35 billion to \$55 billion. Until these billions are collected, it is a non sequitur for the legislature to authorize more gambling facilities, syphon the Illinois budget, or raid the five Illinois pensions systems.

Prof. John Kindt is a senior editor and contributing author to the **U.S. International Gaming® Report. He has often testified before the U.S. Congress and state legislatures on issues in business and legal policy. Prof. Kindt has three earned graduate law degrees.*

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